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**Site Selection And Contract
Awards For Construction
And Mechanization
Of The New York Bulk
And Foreign Mail Facility B-171594**

United States Postal Service

U.S. GOVERNMENT PRINTING OFFICE

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-171594

Dear Mr. Gross:

In response to your request of December 17, 1970, and in accordance with subsequent arrangements with your office, we have made a review of the site selection and contract awards for the construction and mechanization of the United States Postal Service's New York Bulk and Foreign Mail Facility located in Jersey City, New Jersey. We have given emphasis to certain allegations regarding cost overruns on the construction contract and the selection of the property owned by the Penn Central Railroad as the site for the postal facility. The results of our review are presented in detail in the accompanying report and are summarized in the digest.

We have not requested the Postal Service, the firms, or the individuals mentioned in the report to review or formally comment on the information in the report.

As agreed to by your office, we are transmitting a copy of this report to Congressmen Kenneth J. Gray, George H. Mahon, and Robert N. C. Nix.

Sincerely yours,

A handwritten signature in black ink that reads "James B. Stets".

Comptroller General
of the United States

The Honorable H. R. Gross
House of Representatives

D I G E S T

WHY THE REVIEW WAS MADE

At the request of Congressman H. R. Gross, the General Accounting Office (GAO) reviewed the selection of the site and the contract awards for the construction of and procurement of equipment for the New York Bulk and Foreign Mail Facility (New York bulk facility) located in Jersey City, New Jersey. Of particular interest to the Congressman were allegations that the cost of the project would significantly exceed the initial cost estimates and matters relating to the selection of property owned by the Penn Central Railroad as the site for the postal facility.

The New York bulk facility is part of the United States Postal Service's planned National Bulk Mail System consisting of 21 bulk mail centers and 12 service facilities. Only bulk mail, such as parcels and newspaper, will be processed in these facilities. The Postal Service believes that such facilities will permit it to use modern machine-sorting techniques to process mail, consolidate mail for long-distance transportation, improve service to customers, and lower overall costs. The Postal Service plans to spend about \$1 billion to build this network. The Postal Service has estimated that the use of the New York bulk facility will result in annual operational cost reductions of about \$33.9 million.

In February 1971 the Postal Service gave the U.S. Army Corps of Engineers responsibility for construction of the project.

Because of the lack of documentation to support the Postal Service's actions on matters involving the New York bulk facility, GAO had to rely, to a great extent, on interviews with postal officials and others involved in the project to obtain information pertinent to its review.

In accordance with arrangements made with Congressman Gross' office, we have not requested the Postal Service or the firms and other individuals mentioned in the report to review or comment on the information in this report.

FINDINGS AND CONCLUSIONS

Site selection

GAO believes that the Postal Service eliminated alternative properties from consideration as potential sites for the postal facility before

sufficient data had been obtained to form a reasonable judgment that the property acquired was the most feasible site under consideration.

The site requirement was increased from 80 acres to 110 acres without adequate evaluation by the Postal Service of the architect and engineering firms' recommendations for the increase. The increase in acreage size eliminated one site of 80 acres from consideration.

Another parcel, comprising 260 acres, was eliminated from consideration without obtaining adequate data on subsoil conditions, price, and accessibility for operational purposes. A real estate consultant, who formerly worked for the Post Office Department as Assistant Postmaster General for Facilities, was hired by the Postal Service to help locate land for the facility. The consultant participated in the site selection and acquisition process.

Site preparation

The Postal Service awarded a contract for piling, amounting to about \$4.2 million, without obtaining more information on soil conditions to better estimate pile lengths. The contract provided for a fixed price for sinking about 6,500 piles on the site at an average depth of 110 feet and for unit prices for adjusting the contract price if piles were sunk at depths of either more or less than 110 feet.

After the piling work began, it was discovered that, because of soil conditions, design of the piles had to be changed and that 162,000 additional lineal feet of piling had to be driven. Therefore the Postal Service's costs of piling increased by about \$2.1 million, or more than 50 percent over the initial contract amount. The Postal Service's desire to quickly get the project completed appears to have been the overriding consideration in not making a more complete study of soil conditions.

GAO believes that the Postal Service should have obtained additional data on soil conditions to assist it in preparing bid specifications for piling. GAO believes also that the Postal Service should have required bids on the basis of the price for piling each foot, which would have provided more assurance that the most economical bid was selected than did the basis on which the contract was awarded.

Selection of contractors for architect and engineering services

Two architect and engineering firms were selected by the Postal Service to compete for the final design contract for the New York bulk facility. The firm selected for the final design had a contract totaling about \$4.2 million, and the unsuccessful firm was paid \$640,000 for its preliminary design work.

GAO believes that the actions taken by the Postal Service in selecting the firms to compete for the design contract and in making the award were not adequate.

Project costs and bid protest

The \$42.6 million estimate of the general construction contract costs of the project by the architect and engineering firm was accepted by the Postal Service without sufficient evaluation, and, when the lowest bid received amounted to about \$105 million, the bid was rejected because it was too high in relation to the estimate. The sizable underestimation of costs was attributed largely to not recognizing that many labor overtime hours would be required to meet the Postal Service's compressed time schedule for completion of the project.

Revised estimates then were made, and, after readvertisement, contracts totaling \$85.5 million were awarded. The total project costs (site, design, construction, and mechanization) originally were estimated at \$62.3 million, and the latest estimate amounts to \$130.1 million--representing an increase of \$67.8 million, or about 109 percent.

GAO believes that, if the Postal Service had obtained information that was available on the construction activities and on the labor market in the New Jersey area, it could have prepared initially more reliable estimates of construction costs and more realistic construction time schedules. Such information could have provided the Postal Service with a better basis for soliciting bids and might have expedited the completion of construction.

The second lowest bidder filed a protest with the Comptroller General of the United States because the successful bidder did not comply with performance bond requirements. GAO presently is considering the protest.

Sole-source procurement of parcel-sorting machines

A contract amounting to \$8.4 million for equipment critical to the economical operation of the facility was awarded on a sole-source noncompetitive basis, primarily because the contractor was the only known source of the equipment which could be supplied without any development work. The Postal Service's records indicate, however, that Postal Service officials were aware before the contract was awarded that development work was necessary. As of September 1971, the equipment would not work efficiently and further development work was necessary.

A preaward survey was not made to determine the prospective contractor's capability to satisfactorily perform, and GAO believes that adequate measures were not taken to evaluate the contract price.

A Postal Service official who participated in the decision to award the contract to the company was employed formerly by the company as a consultant.

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ABBREVIATIONS

ACME	Association of Consulting Management Engineers
A-E	Architect and engineering
DS/SD	Drake Sheahan/Stewart Dougall, Inc.
GAO	General Accounting Office
GSA	General Services Administration

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CHAPTER 1

INTRODUCTION

In December 1967 Morgan Postal Station in New York City was damaged significantly by fire, which caused the Post Office Department (Postal Service) to plan major renovation to the station. This station handled bulk mail and other classes of mail.

On April 8, 1969, the Postal Service awarded a contract to the marketing and physical distribution consulting firm of Drake Sheahan/Stewart Dougall, Inc. (DS/SD), to conduct a study of present and projected mail flow in the New York metropolitan area. The primary objective of the study was to determine whether a reasonable alternative to the proposed Morgan Station renovation was available for handling bulk mail. This determination was to take into consideration cost, service, and employee working conditions. The resulting report, dated May 22, 1969, recommended that an alternative plan for a new bulk-mail facility be developed.

On June 2, 1969, DS/SD was retained by the Postal Service to study the mail flow in the New York metropolitan area and to make specific recommendations for improving postal operations. This study resulted in recommendations by DS/SD that separate specialized facilities be established in a specified area of northern New Jersey (see map, app. II) to handle foreign-surface and bulk mail, respectively. DS/SD's reports dated July 31, 1969, recommended site sizes of about 40 and 36 acres for a foreign surface mail facility and a bulk mail facility, respectively.

The New York bulk facility in Jersey City, which is under construction, is part of the Postal Service's planned National Bulk Mail System consisting of 21 bulk mail centers and 12 service facilities. Only bulk mail, such as parcels and newspapers, will be processed in these facilities. The Postal Service believes that such facilities will permit it to use modern machine-sorting techniques to process mail, consolidate mail for long-distance transportation, improve service to customers, and lower overall costs. The Postal Service plans to spend about \$1 billion to build this network. It also expects to reduce operational costs by about \$300 million annually when the network is completed.

The prospectus for the New York bulk facility was approved by the Senate and House Committees on Public Works on May 26, 1970, and June 23, 1970, respectively. The prospectus estimated that site, design, and construction costs would total \$53.8 million.

Because of the lack of documentation to support the Postal Service's actions on matters included in this report, we had to rely, to a great extent, on interviews with postal officials and others involved in this project to obtain information pertinent to our review.

CHAPTER 2

SITE SELECTION

We believe that the Postal Service did not obtain sufficient data on the sites being considered for the New York bulk facility before purchasing the Penn Central site.

Postal Service records showed that, between April and September 1969, site investigations were made to determine the availability of two 30-acre tracts or one 60-acre tract of land as suitable sites for a foreign surface mail facility and a bulk mail facility. During this period 20 sites, which each contained a minimum of 60 acres, were studied by the Postal Service. These sites were owned by either municipalities or private parties. Some were part of industrial-park complexes.

The records showed also that the Postal Service had reviewed the suitability of these sites on the basis of "location, mileage, time, transportation, and availability for immediate use to construct postal facilities."

Late in September 1969 the Assistant Postmaster General for Facilities determined that a consolidated site should be used and that an 80-acre site would be needed to build a facility for processing bulk and foreign surface mail. He told us that his determination was based on DS/SD's recommendation that site sizes of 40 and 36 acres would be needed for a foreign surface mail facility and a bulk mail facility, respectively.

On the basis of the increased site size, three sites were designated by postal personnel for further consideration. The three sites were a 300-acre tract located at the Caven Point Army Terminal in Jersey City; a 260-acre tract located in Secaucus, New Jersey, and known as the Mori-Galbreath property; and an 80-acre tract also located in Secaucus and known as the Bigley property. A survey team of postal personnel found the Caven Point Army Terminal site to be unacceptable because of serious transportation access problems and possible flooding problems, and it was questionable whether soil conditions would support heavy industrial construction.

By memorandum dated September 22, 1969, a Postal Service Field Liaison Officer, who was a member of the site survey team, recommended the 80-acre tract owned by William J. Bigley Corporation as the best of the three sites. This recommendation was based on information provided by the Postal Service Regional Real Estate Officer assigned to the site investigating team.

The Postal Service Washington Headquarters Director, Office of Real Estate, in a memorandum to the Assistant Postmaster General for Facilities, stated that the Bigley property appeared to be the best of the available sites. Postal Service records indicated an asking price for this property of \$75,000 an acre, subject to negotiation. This asking price subsequently was reduced by Bigley to \$55,000 an acre. The Postal Service did not enter into price negotiations with Bigley; therefore we did not have information to show what the selling price might have been.

On September 19, 1969, the Assistant Postmaster General for Facilities retained the services of Mr. Ormonde A. Kieb (formerly Assistant Postmaster General, Bureau of Facilities, 1953-59) as an expert consultant in real estate to assist the Postal Service in obtaining a site for the proposed facility. Mr Kieb was president of Kieb, Turnbull & Jewett Corporation, Newark, New Jersey, a real estate consultant firm. Mr. Kieb was employed on a "per day basis" and was paid at a rate of \$107.92 a day when actually employed during the period September 19, 1969, through January 13, 1971.

In an October 2, 1969, memorandum, the Postal Service Field Liaison Officer stated that he had been directed by the Assistant Postmaster General for Facilities to meet with Mr. Kieb to view two property sites which had not been considered previously as contending sites by the Postal Service and that selection and control of a site had to meet a deadline of October 15, 1969.

One of the properties was rejected, but the other property was added to the list of possible sites. This site, consisting of more than 200 acres, was owned by Manor Real Estate Company, a wholly owned subsidiary of the Penn Central Railroad. We were informed by Mr. Kieb that he had been in contact with Penn Central officials who had informed him that the property was available.

On October 3, 1969, Mr. Kieb and the Postal Service Field Liaison Officer visited the Bigley property to make an onsite inspection. A memorandum on the visit showed that, on the basis of their visual inspection of the property, they believed it to be a suitable site for postal use.

The October 2, 1969, memorandum stated also that Mr. Kieb, acting as a consultant, was to obtain information, such as aerial photographs, on the Mori-Galbreath and Penn Central sites for use by the Postal Service in deciding on a site.

A Mori-Galbreath internal memorandum of a telephone conversation with Mr. Kieb, dated October 2, 1969, stated that:

"A rail siding to connect with Penn Central is a requirement as is access via several streets. Public transportation is important, since 9,000 employees (many coming from New York City) will be employed. A separate study is being made to determine if direct bus service from P.A. [Port Authority] Bus Terminal to facility is warranted."

We did not find any evidence that indicated that the Postal Service was requiring that sites for the New York bulk facility have rail sidings connected to the Penn Central Railroad and access via several streets. In response to Mr. Kieb's request, Mori-Galbreath furnished, on October 8, 1969, certain information about the property, such as aerial photographs and topography maps.

On October 10, 1969, the Postal Service Field Liaison Officer described the features and pros and cons of the three sites under consideration to the Postal Site Committee which was composed of Mr. Kieb and interested members of the Bureau of Research and Engineering and the Bureau of Facilities. (See apps. III and IV for general location of sites.) The meeting resulted in the elimination by the Assistant Postmaster General for Facilities of the Mori-Galbreath property from further consideration as a possible location for the project.

On the basis of our review of Postal Service records, we could not determine why the Mori-Galbreath property had been eliminated from further consideration. The Postal Service Field Liaison Officer told us that the site had been eliminated because of several disadvantages, such as unfavorable soil conditions, limited accessibility, and indications of a high asking price for the property.

It appears to us that these potential disadvantages were not adequately examined into by postal officials before making a decision to drop the property from consideration. Neither a survey of the soil condition nor a study of accessibility was made. Concerning the possibility of a high asking price, we were informed by a representative of the property owner that:

"*** no price was ever quoted [to the Postal Service] for the sale or lease of the property. We anticipated ** that this would be a matter of discussion and negotiation."

Mr. Kieb wrote a letter to the owners of the Mori-Galbreath property on October 21, 1969, informing them that the Postal Service was no longer interested in their property. Mr. Kieb told us that this advice had been given as a matter of business courtesy.

By eliminating the Mori-Galbreath property, the Postal Service was limiting its attention, on the basis of an 80-acre requirement, to the two remaining tracts of land--the Bigley property and the Penn Central property.

On October 17, 1969, the Postal Service retained the firm of Woodward-Clyde & Associates, Inc., consulting engineers and geologists, at a fee of \$750, to perform a soil study of the Bigley and Penn Central properties to determine which property would provide the best subsoil conditions for constructing the facility. The survey report, dated October 24, 1969, concluded that the Penn Central property was more suited for the proposed postal use than the Bigley property. The report, however, cited certain severe limitations to the scope of the study, as follows:

"The opinions and conclusions presented in this report are based on a review of information in our files and that furnished by the Post Office Department. Some of this information is very old and a large percentage of this old data was not verified in the field for this preliminary report. A preliminary site visit was made, but time requirements precluded anything more than a cursory visual examination of the surficial site condition." (Underscoring supplied.)

It appears to us that the above qualifications on the scope of the survey work cast serious doubts on the reliability and usefulness of the conclusions. Nevertheless it seems that the Postal Service made no further efforts to determine the relative desirability of the Bigley property, since all subsequent significant matters on site selection, such as appraisals and soil tests, were limited to the Penn Central property. On the basis of our examination of Postal Service records and interviews with postal officials, we could not determine conclusively who had made the decision to single out Penn Central property as the most desirable site.

Records of the Postal Service showed that, on or about October 20, 1969, the architect and engineering (A-E) firms of Lester B. Knight & Associates, Inc., and A. T. Kearney & Company, Inc., in oral presentations to the Postal Service, recommended an area larger than 80 acres. These A-E firms had been hired about a month earlier to compete for the design contract for the project.

The Postal Service Field Liaison Officer told us that Kearney and Knight each had provided the Postal Service with preliminary plans using 90 and 110 acres, respectively. Officials of the A-E firms informed us that, during the October 20, 1969, meeting, postal officials expressed a preference for the Penn Central site for the New York bulk facility.

Knight's site plan provided for a 300-foot easement for use as the location of a future elevated highway which ran the full length of the property. The site plan used most of this area, about 25 acres, for parking since the highway

was to be elevated. Postal real estate officials told us, however, that an easement did not exist and that the area was merely reserved for future highway use, at the request of a State of New Jersey Department of Transportation official.

According to postal officials no detailed evaluation was made of the site plans presented by the A-E firms to determine the need for increasing the acreage from 80 acres to the 90 and 110 acres. They told us that reliance had been placed on the A-E firms' judgment. Increasing the size of the site to more than 80 acres would eliminate the Bigley property because it was only 80 acres.

It appears to us that the need for a larger site should have been questioned by the Postal Service in view of the data developed earlier by DS/SD and in view of the decision by the Assistant Postmaster General for Facilities that 80 acres would be adequate for the project. (See p.6 .)

For example, there was no significant change in the size of the structures proposed by DS/SD, Knight, and Kearney. Knight and Kearney estimated that the number of employees would be about half the number estimated by DS/SD, and related parking space requirements were reduced substantially. One of the A-E firms, however, provided one parking space for each employee, which may have been unrealistic because some employees probably would use public transportation or would enter into carpool arrangements.

On October 17, 1969, the realty appraisal firm of Charles F. Evans & Associates was retained by the Postal Service to appraise the Penn Central property. The agreement called for a preliminary estimate by the firm; the estimate would be subject to refinement in a full and detailed formal appraisal report to follow. The preliminary appraisal report dated October 29, 1969, stated that:

"*** Expensive site preparation would be necessary including large volumes of fill and probable resort to piling, and such costs could average as much as \$30,000 to \$50,000 per acre overall ***."

No appraisal was obtained by the Postal Service on the Bigley property.

In a memorandum dated November 6, 1969, to the Assistant Postmaster General for Facilities, the Director, Realty Division, said that estimated costs for pilings, foundations, and fill on the 90-acre portion of the Penn Central site would cost about \$9 million. He also stated that the site-development cost estimates had been prepared on the basis of very limited topographic information and that, to more accurately determine the development costs for these sites, topographic surveys must be obtained. Records showed that such a survey had been made only of the Penn Central property.

Postal Service records indicated that, during the next few months, the size of the site required for the facility increased, primarily on the basis of recommendations from the A-E firm which had prepared the preliminary design plan of the facility for the Penn Central property.

During this period Postal Service officials, accompanied by Mr. Kieb, conducted negotiations with the owners of the Penn Central property. Because the State of New Jersey claimed tidal water rights to portions of land in the area, including the Penn Central property, postal officials decided to acquire the site by a condemnation action which would eliminate the State's interest in the Penn Central property.

Mr. Kieb told us, in response to our inquiries, that, subsequent to leaving the Post Office Department in 1959, he served for sometime as a broker for the Erie-Lackawanna Railroad to dispose of excess properties.

He stated that he had never worked for the Penn Central Railroad. He also said that he had not received any fee or commission from the Penn Central Railroad in connection with the site selected for the New York bulk facility.

On March 11, 1970, a deposit in the amount of \$2,167,500, or \$15,000 an acre for 144.5 acres, was made with the U.S. District Court, Newark, in connection with a Filing of Declaration of Taking by the Department of Justice. The

date of possession was March 16, 1970. The estate acquired was fee simple title, subject to existing easements for public roads and highways, public utilities, railroads, and pipelines.

The final appraisal report and Department of Justice records described the land acquired as follows:

<u>Parcel</u>	<u>Acres</u>	<u>Owner</u>
A and B	134.17	Penn Central Railroad
C, D, E, and F	8.44	Erie-Lackawanna Railroad
G	.54	Public Service Electric Gas Company
H	1.35	Jersey City and Union City, New Jersey
	<u>144.50</u>	

The Postal Service paid \$3.1 million for fill on the site and \$6.2 million for piling to support the planned building. We were informed by a Corps of Engineers official that, as of September 1971, about 26 acres had not been filled and were not being used. At that time the U.S. District Court had not ruled on the final price that the Postal Service should pay for the land.

We believe that the Postal Service eliminated the Bigley and Mori-Galbreath properties from consideration as potential sites for the facility before sufficient data had been obtained to form a reasonable judgment that the Penn Central property was the most feasible site under consideration.

CHAPTER 3

CONTRACTS RELATING TO SITE PREPARATION

The Postal Service awarded a contract for piling, amounting to about \$4.2 million, without obtaining more information on soil conditions to better estimate pile lengths. Also the contract provided for a fixed price for sinking about 6,500 piles on the site at an average depth of 110 feet and for unit prices for adjusting the contract price if piles were sunk at depths of either more or less than 110 feet. Because of problems resulting from soil conditions encountered after piling work began, the Postal Service significantly increased the scope of the contract for the piling work. The Postal Service negotiated the price for the additional work which increased the cost of the contract by about \$2.1 million, or more than 50 percent over the initial contract amount, and which brought the total cost to about \$6.3 million.

We believe that the Postal Service should have obtained additional data on soil conditions to assist it in preparing bid specifications for piling and should have required bids on the basis of the price for piling each foot, which would have provided more assurance that the most economical bid was selected than did the basis on which the contract was awarded.

A contract dated November 24, 1969, was awarded by the Postal Service to Woodward-Clyde & Associates, Inc., to perform soil tests to be used by the A-E firm of Lester B. Knight & Associates, Inc., in designing the land-fill and piling specifications for preparation of the project site for construction of the facility. The cost of these soil tests was about \$44,000.

On January 16, 1970, the soil engineer contractor submitted to the Postal Service a report on findings pertaining to the Penn Central property, including geology and subsurface conditions, an analysis of subsurface materials and foundation treatment data. The report suggested three possible methods for preparing the site for construction of the facilities.

1. Excavation and backfill--This method requires the excavation of the existing fill and the underlying tidal marsh deposit and the replacement with compacted load-bearing fill to the design-subfloor grade.
2. Excavation, backfill, and surcharge--This method involves preloading or surcharging the newly excavated and backfilled building areas with additional fill above that necessary to bring the building areas to the subfloor grade. Surcharging is designed to cause settlement of the fill prior to construction; settlement ordinarily occurs sometime after construction.
3. Piles--This method involves the driving of lengths of steel beams or steel pipes to various depths so that they terminate in the dense to very dense sand and silt stratum underlying the clays. The piles would be strategically placed to support the structure and the floor of the building.

The contractor's soil test report included the following paragraph.

"Of the various foundation methods studied, it is our opinion that only long end-bearing piles or excavation and backfill with surcharge are feasible solutions at this site. Piling the building, including floors, is the most positive and expeditious solution although very costly. The surcharge method is also feasible, in our opinion, but could involve some time delay, as well as some long-time differential settlement of the building and floors. However, the effects of the differential settlement can be greatly reduced by proper design." (underscoring supplied.)

The report showed that, even if the pile method was used, a large quantity of fill would be necessary to form the base for the floors and to bring the general site and parking areas to a proper grade level. In addition, the report stated:

"Further study and/or testing may be necessary *** so that more detailed recommendations and design criteria can be established. The extent of additional field and/or laboratory investigations will depend upon the final foundation method adopted for the project.

"If the pile solution is used, there is probably no necessity for further exploration unless more information is desired for better estimating of pile lengths." (Underscoring supplied.)

On the basis of the report of Woodward-Clyde, the Postal Service chose the piling method, apparently because it had an early target date for the start of foundation and building construction work.

Pursuant to the Postal Service's decision to use the piling method of site preparation, contractors were requested to submit bids for the piling work. The piling work was required to meet specifications prepared by Lester B. Knight & Associates, Inc., on the basis of the findings of the soil engineers--Woodward-Clyde. Specifications for the piling work provided that the contractor furnish and install 6,322 piles at an average depth of 110 feet each, or a total of 695,420 lineal feet.

We were informed by a Postal Service official that no further testing had been done at the site after the Woodward-Clyde study had been completed because it would not have been economical to do further testing. This opinion was justified on the basis that test borings showed only what subsoil conditions existed at the spot where the borings were actually taken and might not be indicative of the existing condition several yards in any direction.

An official of Woodward-Clyde told us that the Postal Service had imposed a severe time limitation on the soil-testing work. He said that usually more detailed soil exploration work should be done and that more test borings should be made for such a project as the New York bulk facility.

The Woodward-Clyde official said that , because the A-E firm had not completed design work, Woodward-Clyde did not know the precise location planned for the building at the time the 14 test borings were made. Some of the test borings made fell outside the area of the building, and, consequently, the information obtained from such test borings did not apply to areas where the piles would be placed to support the building.

The Woodward-Clyde official said also that additional work might have cost about \$40,000, would have given more reliable information on estimated pile lengths, and probably would have resulted in a recommendation to use a tapered pile instead of the straight-pipe pile which was used. He said that the piling work probably would have cost substantially less if it had been determined from additional soil analysis that the tapered piles should be used, because shorter piles would be needed.

The General Services Administration (GSA) requirements concerning soil test borings state:

"Borings shall be located to straddle the proposed building location and permit interpolation. There shall be no fewer than four borings on each site. The spacing of borings shall be no more than 50 feet apart where strata is expected to vary considerably, no more than 200 feet apart where conditions are uniform, and about 100 feet apart for all other sites."

We estimate that, if the GSA requirements had been applied to the New York bulk facility, a minimum of about 120 test borings would have been made at 50-foot intervals and about 60 test borings at 100-foot intervals.

In addition, a Corps of Engineers' official said that the 14 test borings were inadequate for a facility of this size.

On May 1, 1970, Raymond Concrete Pile Division of Raymond International, Inc., submitted a bid of \$4,189,770 for the piling work, the lowest of the five bids received. The other bids ranged in amounts from \$4,683,250 to \$6,277,000. On June 24, 1970, the Postal Service awarded a fixed-price

contract to Raymond in the amount of \$4,189,770. The contract required work to start immediately after the contractor received a notice to proceed, which was issued to Raymond by the Postal Service on August 3, 1970.

As required by the solicitation, the following prices, in addition to the basic bid amount, were submitted by Raymond and were incorporated into the contract but were not considered in determining the lowest bidder.

1. For total length of piling in excess of 110 feet, times the actual number of piles--add \$11.77 for each lineal foot.
2. For total length of piling less than 110 feet, times the actual number of piles--deduct \$1 for each lineal foot.
3. For test piles in excess of the 12 specified--add \$7,700 for each load test.
4. For piles in excess of the number shown in the drawings--add \$770 for each pile.

Shortly after the piling work began--on or about August 19, 1970--Raymond reported that it was necessary to drive some piles below the average 110-foot level stated in the specifications. Also boulders were encountered at depths of 90 to 110 feet, which caused damage to or failure of 36 piles out of the first 167 driven. Raymond thereupon claimed that the soil test borings previously made by Woodward-Clyde had indicated that sand and silt conditions existed at depths of 90 to 110 feet but that actual conditions were different. As a result of the actual subsoil conditions encountered, Raymond recommended that a 75-foot section of pipe pile first be driven and filled with concrete; that, after the concrete had hardened, a second section be connected to the first section; and that the two sections then be driven into the ground as one. The original method was to drive a continuous 110-foot section into place and to fill it with concrete. The changed method was accepted by the Postal Service and was put into use.

Representatives of the Postal Service and Raymond met on October 30, 1970, to revise the contract. The revised contract was to provide an equitable adjustment for such items as the 162,000 additional lineal feet of piling to be driven and the revised method of pile driving. A revised contract price of \$6,343,250 was negotiated, representing an increase of \$2,153,480, or 51 percent, over the original basic contract price of \$4,189,770.

The prices for increases or decreases to the scope of work, shown on page 18, were adjusted during negotiations without the benefit of a review by the Postal Service's internal auditors. Federal Procurement Regulations require independent review of prices of any negotiated contract changes or modifications involving an amount in excess of \$100,000. These regulations allow contracting officers to waive the requirement under certain circumstances. In a December 1970 memorandum, however, the Postal Service's Director of Internal Audit stated that "The contract files examined in the Facilities Department did not include documentation to support a waiver." In addition, we interviewed postal officials who could not produce documentation concerning the waiver.

The following prices, in addition to the basic bid amount, were submitted by the second lowest bidder.

1. For total length of piling in excess of 110 feet, times the actual number of piles--add \$4 for each lineal foot.
2. For total length of piling less than 110 feet, times the actual number of piles--deduct \$2 for each lineal foot.
3. For load test piles in excess of the 12 specified--add \$10,500 for each load test.
4. For piles in excess of the number shown in the drawings--add \$600 for each pile.

Although the second lowest bidder's basic bid price of \$4,683,250 was \$493,480 more than Raymond's, its prices for additional work generally were significantly less than those submitted by Raymond. Invitations to bid, such as those issued for this procurement, which include both definite and unknown quantities at fixed prices may not provide assurance that the most economical bids are selected. For example, on the basis of the revised piling work done, the total cost of the piling work would have been about \$800,000 less if the second lowest bidder had done the work, because its prices for the additional work generally were significantly lower than those of the contractor.

We believe that, if the additional soil investigation work had been done by the soil engineers, more precise information on the scope of piling work would have been obtained and could have been used by the Postal Service as the basis for preparing piling specifications more consistent with actual soil conditions.

We believe also that the invitations to bid should have required bid prices on the basis of the price for piling each foot, which would have precluded bids at one price for the specified amount of work and a different price for possible additional work of an unknown amount. In addition, we believe that the Postal Service should not have waived the Federal Procurement Regulation requirement of an independent review of the proposed price changes.

CHAPTER 4

SELECTION OF CONTRACTORS FOR

ARCHITECT AND ENGINEERING SERVICES

The Postal Service deviated from its normal procedures in selecting the A-E firm for designing the New York bulk facility.

Two A-E firms (A. T. Kearney & Company, Inc., and Lester B. Knight & Associates, Inc.), were chosen to compete for the design contract for the New York bulk facility. On the basis of the Postal Service's evaluation of preliminary design reports submitted by the two A-E firms in December 1969 and January 1970, the Postal Service retained Knight to perform the final design work and to prepare the specifications to be used in the bid packages.

As of September 30, 1971, Knight's contract called for a total estimated cost of \$4.2 million, comprising Knight's estimated cost of about \$3.9 million and a fixed fee of about \$226,000. Kearney was paid about \$640,000 (cost--\$603,000 and fee--\$37,000) for its preliminary design work. The program manager for the New York bulk facility told us that several of Kearney's design concepts, such as those relating to roof framing, spacing of interior columns, and location of employees' facilities, were considered better than those designed by Knight. These concepts were adopted by the Postal Service and were incorporated by Knight into the final design. (See apps. VI and VII for site layout and building configuration.)

We were told that the following procedures were typical of those normally used by the Postal Service in selecting A-E firms for other postal facilities.

1. Firms are requested to submit a completed Standard Form 251, "U.S. Government Architect-Engineer Questionnaire," which requires information about the A-E firms, such as the specialties of key employees; personal histories of principals and associates;

types of projects the firms specialize in; scope of services provided; and descriptions of work done by the firms during the last 10 years, including photographs and exhibits.

2. Firms responding to the request are evaluated independently by at least three Postal Service architects, primarily on the basis of the professional disciplines in each organization and the size, experience, and availability of staff in the project area.
3. Several of the top firms are visited by postal officials who suggest, on the basis of discussions with management and inspections of physical plants, that one specific firm be selected.
4. The firm selected is sent tentative drawings and building requirements and is requested to submit cost estimates which are compared with the Postal Service's estimated cost.
5. The selected firm and postal officials then negotiate a fixed-price contract.

The Postal Service was unable to provide us with documentation showing the evaluation made in selecting the A-E firms for the New York bulk facility. In a memorandum to the files dated April 4, 1971, however, which was prepared as the result of our inquiries, the Postal Service's Director, Office of Contract Programs (contracting officer), stated that, in selecting a contractor for the A-E work on the project, it was decided that the A-E firm would have to possess a combination of capabilities and experience in the following fields.

1. Industrial engineering.
2. Plant layout.
3. Materials handling.
4. Building and mechanization design.
5. Manpower planning.
6. Facility planning.
7. Site investigation.
8. Long-range facilities planning.

The contracting officer told us that, in assessing engineering capabilities of A-E firms, the Postal Service had relied heavily on an earlier survey of industrial-engineering firms, which included A-E firms. The survey was made in conjunction with proposals received from firms under the Postal Service's Field Industrial Engineering Improvement Program. This program involved studies of physical operations and employee working conditions in selected post offices and concentrated primarily on safety, environment, and productivity. The purpose of the program was to improve employee working conditions and productivity within the present system until such time as new systems became available.

The survey evaluated the industrial-engineering capabilities and qualifications of 21 firms. In evaluating the proposals from these 21 firms, the Postal Service's Contract Award Review Board assigned numerical ratings to each firm and then selected the top eight firms for participation in the Field Industrial Engineering Improvement Program. The numerical ratings were based on evaluating each firm's proposal by considering various factors relating to the general quality and responsiveness of the proposal, organization, personnel and facilities, and technical approach. Knight ranked seventh in the numerical ratings and was one of the eight firms selected to participate in that program. Kearney, on the other hand, ranked 12th in the scoring and was not selected for the industrial-engineering program.

It appears to us that the scope of the work required for the industrial-engineering program was significantly different and far more limited than that required of A-E firms in developing plans and designs for a totally new mail-processing system and facility layout under a bulk-mail-distribution concept.

We were told that, in addition to using the above industrial-engineering information, the Postal Service had reviewed a directory of the Association of Consulting Management Engineers (ACME) in selecting the A-E firms to compete for the design of the New York bulk facility. The directory contained a brief description of the services offered by ACME members. We were informed by the contracting officer that the ACME directory had been consulted to

identify any of the firms ranking high in industrial engineering which were shown in the directory as also having strong capabilities in the seven other fields (previously mentioned), primarily in building and mechanization design.

The directory indicated that Knight had capabilities in all eight of the desired fields but did not indicate that Kearney had capabilities in five of the eight fields, particularly in the stated important fields of building and mechanization design.

Three of the top eight industrial-engineering firms previously selected for the Field Industrial Engineering Improvement Program were not listed in the ACME directory.

In the aforementioned April 1971 memorandum to the file, the contracting officer stated that the Postal Service review:

"*** indicated that A. T. Kearney and Company, Inc. and Lester B. Knight and Associates, Inc. were highly qualified because of their industrial engineering background and capabilities, and in addition possessed the mechanization and building design, methods and process engineering, materials handling, construction management, and integrated facilities engineering capabilities required.
***"

The ACME directory indicated that Knight possessed the additional capabilities mentioned above, except "methods and process engineering." The ACME directory, however, did not show that Kearney possessed capabilities in the fields of "mechanization and building design, construction management, and integrated facilities engineering."

The contracting officer, in his April 1971 memorandum, also stated that:

"*** Additionally, both of these firms had done satisfactory work for the Post Office Department in the past. Capability and qualification statements were obtained from these two firms and further evaluated, and a decision was made to seek proposals from these two firms for the New York bulk and foreign mail facilities development program, on a design competition basis."

Concerning the work done by these firms for the Post Office Department, Knight had made only a survey, over 10 years ago, of mail handling in the Chicago Post Office and Kearney's work for the Department was only remotely similar to the work that would be required in connection with the New York bulk facility. Kearney's statement of experience in Department work included:

1. Participation in the first Hoover Commission task-force study relating to the organizational structure, financial controls, and general administration of the Post Office Department.
2. Review and analysis of the Department's work measurement program.
3. Study of first- and third-class mail involving the need for mechanization and mail standardization.
4. Brief study at one postal facility covering opportunities to improve mail handling through containerization.
5. Study of janitorial work standards at post offices.

In regard to obtaining and evaluating qualifications statements from Knight and Kearney, we believe that sufficient data was not obtained to reasonably support a decision that the two firms had the best potential capabilities. We believe that other A-E firms should have been given an opportunity to participate and that more comprehensive comparisons and evaluations should have been made of all

potentially qualified A-E firms.

We were unable to determine why the Postal Service deviated so significantly from its normal procedures in selecting the A-E firms for the New York bulk facility. We believe, however, that the actions taken by the Postal Service in selecting the A-E firms to compete for the design contract were not adequate.

CHAPTER 5

PROJECT COSTS AND BID PROTEST

PROJECT COSTS

The estimate of certain construction and mechanization costs for the New York bulk facility, which was prepared by Knight and which, in our opinion, was accepted by the Postal Service without sufficient evaluation, was \$42.6 million. The lowest of the two bids received by the Postal Service totaled about \$105 million, or 146 percent above the estimated cost. This bid was rejected by the Postal Service because it was too high in relation to the estimate. Later, revised estimates were made, and, after readvertisement, contracts totaling \$85.5 million were awarded. The latest available estimate of the total project cost was \$130.1 million (see app. V), an increase of about \$67.8 million, or 109 percent, over the original total project cost estimate of \$62.3 million.

The following tabulation shows a comparison of estimated total project costs (1) prepared by the A-E firm, (2) approved by the House and Senate Committees on Public Works, and (3) as of September 1971.

Comparative Cost Estimates

	A-E firm estimate at <u>Dec. 20, 1969</u>	Prospectus approved at <u>June 23, 1970</u>	Contract cost at Sept. 30, <u>1971</u>
Site and design	\$14,690,000	\$13,400,000	\$ 10,200,980
Building	20,603,000	40,400,000	55,441,750
Mechanization	18,927,000	(a)	54,891,114
Contingencies	8,100,000	(a)	5,114,925
Administration (Corps of En- gineers)	-	-	<u>4,500,000</u>
Total	<u>\$62,320,000</u>	<u>\$53,800,000</u>	<u>\$130,148,769</u>

^a Not required to be included in prospectuses submitted to the Committees on Public Works.

The following tabulation shows the A-E firm estimate, the low bid received by the Postal Service, and the amount of the contract awarded for general construction.

General Construction Contract

	A-E firm estimate at <u>Oct. 1970</u>	Low bid received by service at <u>Oct. 1970</u>	Contracts awarded at <u>May 1971</u>
Construction	\$ -	\$ 54,000,000	\$39,858,564
Mechanization	<u>-</u>	<u>51,000,000</u>	<u>45,683,211</u>
Total	<u>\$42,605,300^a</u>	<u>\$105,000,000</u>	<u>\$85,541,775</u>

^aDetails not available.

Details concerning project costs are as follows:

Plans for constructing the proposed project were advertised in the Commerce Business Daily issued by the U.S. Department of Commerce. Also the Postal Service contacted 190 contractors by mail to determine their interest in bidding on the project. This procedure resulted in requests for bid packages from four general contractors and 21 subcontractors. The Postal Service, however, received only two bids in the amounts of \$105 million and \$107.4 million, respectively, by the bid opening date of October 22, 1970.

We were informed by Postal Service officials that the Service's estimated cost range of \$36 million to \$42 million, which was to be used by the Service to assess the reasonableness of bids received, had been based on data provided by Knight.

Because of the wide variance between the bids received and the cost estimate, the Postal Service hired a construction consulting firm at a cost of \$30,000 to make a study of the cause for the difference between the estimate and the lowest bid. The study included a review of the Jersey City construction market; e.g., the amount of construction being done and the availability of labor. According to the study

report, the following major factors contributed to the large discrepancy between the estimate and the low bid.

"The estimate was insufficient to support the scope of work required.

"Time allowed for construction duration is too short for normal construction activities, especially for the mechanization system.

"The anticipated completion dates and activities of earlier contracts prevented a smooth continuation of construction activities for the general construction package.

"The inclusion of the mechanization equipment in the general construction created an unrealistic situation in regard to responsibility and time."

The report did not explain how each of the above factors affected the cost estimates.

The Director, Real Property Division, Postal Service, visited the contractors which submitted the bids. As a result of these visits, he concluded that a significant amount of the estimated costs submitted by the contractors was attributed to labor overtime hours of work that would be required to meet the Postal Service's construction time schedule. The schedule called for completing the project within 457 days after the Postal Service gave notice to the contractor to proceed. According to the former Assistant Postmaster General for Facilities, one bidder indicated that, by extending the time for completing construction of the project from about 15 months (457 days) to 21 months, about \$30 million of overtime could be eliminated. As a result of reviews by the consultant and the Assistant Postmaster General for Facilities, the Postal Service rejected the two bids of \$105 million and \$107.4 million as being too high in relation to the estimate of \$42.6 million.

On February 22, 1971, the Postal Service transferred responsibility for construction of the project to the Corps of Engineers. The project authorization showed that the Corps would be responsible for all necessary architectural,

engineering, legal, and administrative services required to complete the project. The authorization showed also that it might be necessary for the Corps to complete design and specification work, in addition to advertising, awarding, and administering the contracts. On March 11, 1971, the Postal Service and the Department of the Army signed an agreement which provided that postal facilities acquisition services be performed by the Corps.

The Postal Service, with the advice and cooperation of the Corps, decided to make an effort to reduce the cost of the project. Instead of having one bid package encompassing all phases of the construction, the Postal Service and the Corps decided that six separate bid packages for the different phases of construction, such as building construction and electrical installation, would provide an opportunity to get greater participation from and competition among contractors. Under this arrangement the Corps would serve as the administrator and coordinator of all the contracts for the project. The Corps issued the bid invitation for the six packages on February 24, 1971. Of the nine contractors who responded to the invitation to bid, all bid on one or more packages.

On May 7, 1971, the Corps awarded two contracts totaling \$85.5 million to the lowest bidders. The construction contract extended the project construction period from about 15 months to 24 months and the completion date from November 1971 to June 1973. A general construction contract in the amount of \$84.5 million was awarded to a joint venture consisting of Terminal Construction Corp.; E. C. Ernst, Inc.; Nager Electric Co., Inc.; the DIC Concrete Corp.; and Underhill Construction Corp. (Tendun Constructors). The second contract was awarded in the amount of \$997,775 for mechanization not included in the general construction contract to Mechanical Handling Systems, Division of American Chain & Cable Co., Inc. Construction is in process. (See app. VIII.)

The Postal Service, by revising the bid invitation procedure, however, did not achieve a reduction in the project cost from \$105 million to \$85.5 million. These two amounts do not provide for the same requirements. The new contract terms extended the construction period by about 9 months, and administration and coordination of the project work was

transferred to the Government whereas the earlier contract terms would have required the general contractor to administer and coordinate the work of certain other contractors. The Corps is to administer these contracts at an estimated cost of \$4.5 million. A breakdown of the bid amounts was not available to permit us to identify the items or circumstances accounting for the differences in the bid amounts. With the award of the contracts totaling \$85.5 million, the cost of the project as of September 1971, according to Postal Service records, totaled \$130.1 million. (See app. V.) The latter amount includes site acquisition and preparation, preliminary construction, and other project costs.

In justifying the need for the project, the Postal Service stated that significant annual operational cost reductions could result from processing bulk mail in a facility which applied modern material-handling concepts (containers) and machines (automatic parcel sorters). For the New York bulk facility, the Postal Service estimated that the annual operational cost reductions would total \$33.9 million. However, because the Postal Service did not adequately consider important factors shown on page 29 before inviting bids on the project, the project completion date was extended and operational cost reductions might not be realized as early as contemplated.

It appears reasonable to assume that Postal Service field officials responsible for construction matters in the New York and Philadelphia Regional Offices should have been aware of the construction market in the New Jersey area (see p. 28) and of the possible impact of such a large construction project as the New York bulk facility. Postal Service officials had recent exposure to such matters because of their association with a large facility for handling bulk mail which is being constructed about 3 miles from the New York bulk facility.

We believe that the Postal Service should have obtained, or required the A-E firm to obtain, information that was available on the construction market conditions in the area and on their effect on the construction of the New York facility, particularly in view of the planned short construction time schedule for such a large facility. Information, such as that obtained by the construction consultant and the Postal Service official after the receipt of bids, could have enabled the Service, we believe, to make more reliable estimates of construction costs and to establish realistic construction time schedules. Such information could have provided the Postal Service with a better basis for soliciting bids.

BID PROTEST

The joint venture of Walter Kidde Contractors, Inc., and Frank Briscoe Co., Inc., the second lowest bidder on the general construction contract, filed a protest with the Comptroller General of the United States and the District Engineer for the United States Army Corps of Engineer District, New York.

The protest by Kidde-Briscoe was based on the inability of Tendun Constructors to obtain the 100-percent performance bonding required by the invitation to bid.

Tendun Constructors requested the contracting officer to reduce the penal amount of the required performance bond from 100 percent to 55 percent of the contract price in consideration of a contract price reduction of \$300,000. The Corps accepted these terms and issued the Notice to Proceed under the contract terms on June 16, 1971.

Kidde-Briscoe brought suit in a U.S. District Court to obtain a temporary restraining order to prevent the Corps from allowing the Tendun Constructors to begin work under the general construction contract. The temporary restraining order was denied by the court after a hearing on June 21, 1971.

The Comptroller General presently is considering the protest.

CHAPTER 6

SOLE-SOURCE PROCUREMENT OF PARCEL-SORTING MACHINES

A contract for furnishing and installing parcel-sorting machines, critical to the economical operation of the New York bulk facility, was awarded to Speaker Sortation Systems, Division of A-T-O, Inc., on a sole-source negotiated basis in the amount of \$8,441,221, including about \$1.1 million for patent rights.

The Postal Service plans to install like equipment in some or all of its 20 other planned major bulk facilities. The successful performance of the parcel-sorting machines therefore not only is important to the economical operation of the facility but also is the key element in the success of the \$1 billion nationwide bulk-mail system. A multimillion-dollar equipment procurement program is planned for the system.

The procurement of this equipment on a sole-source basis was justified by the Postal Service on the basis that Speaker was the only known source of parcel-sorting machines most nearly meeting postal requirements in all detail without any development work but with some minor product improvement. A substantial amount of development work, however, which was known to the Postal Service prior to award of the contract, was necessary on a major component in attempting to make the system economically adaptable to postal operations. In September 1971, more than a year after the contract was awarded, serious machine-operating problems still existed and development work and testing of the machines was continuing.

A survey of the capabilities of the Speaker firm was not made before the contract was awarded, and a survey made later brought out certain questions on the firm's capability to handle the procurement satisfactorily in view of Speaker's lack of depth in management, engineering, and fabrication capacity. The Postal Service's internal auditors noted that the amount of the contract was equal to about 2 1/2 times the total sales of the firm in each of the past 2 years.

The Postal Service made no examination of Speaker's or its subcontractors' books and records to determine the reliability and reasonableness of the cost and other data used in negotiating the contract prices. Therefore there was little assurance that a reasonable price had been established for this sole-source fixed-price contract.

A Postal Service official who participated in the decision to award the contract to Speaker was employed formerly by Speaker as a consultant.

Details on this procurement follow.

Postal Service and A-E firm records indicated that Knight the A-E firm for the facility, made a survey late in 1969 and early in 1970 of the parcel-sorting industry to determine the parcel-sorting equipment then readily available in the market. The compressed time frame for completion of the facility dictated against spending the time which would be required to develop new parcel-sorting equipment. According to these records, Knight considered the capabilities of four companies, in addition to Speaker, to make the parcel sorters. The records indicated that one of the companies considered was not interested in making the parcel sorters and that of the remaining four companies, only Speaker made equipment which met the parcel-sorting speed requirements of the Postal Service. The Postal Service could not provide us with a report or other documentation showing that a comprehensive survey had been made by the A-E firm.

When consideration was being given to awarding a sole-source contract, the Postal Service's Office of the General Counsel was requested to give advice as to whether certain documents contained sufficient facts to support a sole-source contract with Speaker. The Assistant General Counsel replied that the documents did not contain enough information to support a sole-source negotiation. He said:

"The documents do not state why it is felt that no other company is capable of supplying the Department's requirements. Merely stating that Speaker is the only company in the past that has provided such equipment does not mean that no

other firm is capable of providing such requirements."

The Assistant General Counsel informed us that, after receiving additional information concerning the capability of Speaker, he signed a "Findings and Determination" statement authorizing negotiation of a fixed-price contract with Speaker.

The "Findings and Determination," dated July 27, 1970, is required by Federal Procurement Regulations (FPR 1-3.210) which implement the statutory authority to negotiate a contract without formal advertising if "for property or services for which it is impracticable to secure competition." The statement indicated that Speaker was the only known source of the desired procurement.

The "Findings and Determination" indicated that no existing equipment precisely met all the design criteria but that the equipment most nearly meeting this design criteria, with some minor product improvement without any development work, was the equipment manufactured by Speaker.

The sole-source negotiated procurement of the parcel-sorting machines from Speaker was justified by the Bulk Mail Program Director on the basis that the same machines were installed and operational at two industry locations, were available only from Speaker, and required no development work. The records indicated also that only minor modifications to the parcel-sorting machines would be necessary to meet Postal Service requirements.

We were informed by Postal Service officials that capability solicitations had not been sent to mechanical equipment companies to determine whether they could produce the parcel-sorting machines to meet the Postal Service's requirements. These officials informed us that, although at least one company claimed that it had this capability at the time the contract was awarded to Speaker, in the judgment of these officials, the company would not have been capable of providing the equipment.

Contrary to the justification statements that no development work was necessary, postal records showed that postal

officials knew before awarding the contract that development work would be necessary. In July 1970 the Director, Development Engineering, in commenting on a consultant's report on the system design for the Chicago bulk facility, stated that:

"The design for a high speed induction to load parcels onto a tray sorter which will run at 160 trays per minute has not been fully developed. The high speed parcel sorter requires a tray which is smaller than the trays for existing sorters. This tray size will dictate the parcel which must be handled by the high speed induction and sorter. These factors must be considered in the development of parcel sorting systems for the facility." (Underscoring supplied.)

A June 1971 report on preproduction testing of the equipment indicated that the equipment needed improvement. The report indicated that requirements stated in the contract pertaining to the equipment's capabilities to handle parcels of various sizes and shapes had not been met. We were told that this problem had not been solved at September 1971.

In a letter dated July 9, 1971, the District Engineer, Corps of Engineers, stated that:

"The Postal Service needs to continue certain development and test operations on the sorting machines and high-speed induction units that are being manufactured by Speaker Sortation Systems for installation in the New York Bulk Mail Facility. The performance of these items of equipment is the key element in the success of the nation-wide bulk mail system, and their performance needs to be improved over their present level to achieve the rate of mail handling which the nation-wide system is expected to accommodate."

The major problem area relates to the induction system, a component that is supposed to automatically feed parcels onto revolving conveyor trays. In a September 1971 memorandum, the Manager, Bulk Mail and General Research Division, stated that:

"The design concept employed by Speaker *** is not likely to permit a 40 parcel per minute [PPM] keying and induction rate. It appears that a day-in/day-out keying rate of about 25 ppm would be a more realistic expected throughput. It is obvious that with design modifications, and with certain human factor improvements, the throughput will increase. However, a major change in throughput with the current system is not likely to occur."

The keying and induction rate determines the speed at which parcels can be electronically sorted; therefore, the economical operation of the system depends on the induction unit. The A-E firm which designed the facility indicated that an induction speed of at least 30 parcels a minute is needed to maintain the current equipment configuration. Lower speeds may require more sorting machines, more employees, and an increase in the size of the building.

The Manager also said, in his September 1971 memorandum, that:

"The induction system is overly complex and will lead to mechanical problems (as witnessed on September 10) in belt tracking, photocell alignment, ambient lighting conditions, and in overall reliability and maintainability."

The problems still being encountered over a year after the contract was awarded indicated to us that much more than minor modifications was necessary to the parcel-sorting machine system. Therefore we question the Postal Service justification for awarding this sole-source contract on the basis that no development work was required.

The contracting officer's determination that a firm-fixed-price contract should be negotiated with Speaker was made on July 27, 1970. The Postal Service awarded a letter contract to Speaker on August 19, 1970, authorizing Speaker to incur obligations up to \$2 million for parcel-sorting equipment. The letter contract was to be converted to a definitive contract by October 1, 1970. The formal contract

in the amount of \$8.4 million was signed on November 20, 1970.

An onsite survey to explore the capabilities of Speaker was not made until August 20, 1970--after the letter contract was awarded. The survey was made primarily to look into Speaker's capability to perform under a proposed \$1.9 million contract for sack-sorting machines, but the survey team appeared to be concerned also with the contractor's potential performance on the parcel-sorting machine contract.

The survey team was composed of Postal Service officials and representatives of the A-E firm. The report on the survey mentioned matters indicating a potentially adverse affect on Speaker's capability to perform the contracts, such as:

1. Tooling in the production shop was very limited.
2. The engineering staff was limited.
3. Speaker had never installed any sortation equipment with computer translators which are to be used in the parcel- and sack-sorting equipment. Speaker would rely on the computer manufacturer to furnish the computer engineering, although at the time such computer manufacturer had not been selected.
4. Speaker would have to subcontract most of the fabrication required for the parcel- and sack-sorting equipment.
5. Speaker intended to subcontract both mechanical and electrical installation work.

The survey report concluded that:

"The Speaker organization appears to be technically capable, but its lack of depth in management, engineering, and fabrication capacity puts the company's ability to perform within the contract [sack sorting] time schedules to a severe test. The combination of the parcel sorting and

sack sorting contracts, however, present many benefits to the Department which would be lacking in a split contract. Moreover, Speaker's past performance rates this company as having as good or better chance to successfully complete this contract [sack sorting] as any other company responding to the Invitation for Bids."

The survey team therefore recommended that the sack-sorting contract be awarded to Speaker but stated that:

"*** However, we recommend that before making the award, and before completing negotiations on the contract for the parcel sorting machine, that the Contracting Officer make every effort to receive positive and written assurance from the A.T.O. management, that A.T.O. will provide such additional engineering, management, and fabrication resources from other divisions of A.T.O. such as George J. Meyer Company and Logan Company, as may be needed to insure the successful performance of this contract.

In regard to the latter recommendation, a letter dated August 26, 1970, from a vice president of the Meyer Company stated that the production facilities and manufacturing capacities of certain A.T.O. plants would be made available to supplement Speaker's capability.

Speaker's sales amounted to about \$3 million in 1969 and \$3.2 million in 1968. The contract for the parcel-sorting machines amounted to \$8.4 million, or more than twice Speaker's sales for each of the last 2 years. The Postal Service's internal audit questioned the ability of Speaker to handle such a large contract in the planned time span (15 months) and indicated the need for outside help in the manufacture and financing of this effort. No preaward survey was made, and we believe that adequate measures were not taken to evaluate the contract prices.

We found no documentation to support the reasonableness of subcontract prices in the Speaker contract, which amounted to more than \$2 million, including a 15-percent fee of about \$350,000. No examination was made of Speaker's books and records to determine the reliability of the cost and pricing data used in Speaker's contract proposal.

In addition, the Postal Service did not examine into the method of computation and application of overhead expense, cost breakdowns, and trends and budgetary information necessary to provide a basis for evaluating the price proposal submitted by Speaker.

We were informed by a postal official that no record existed to document the engineering evaluation of the Speaker proposal, which was a significant part of the negotiation procedure.

The Program Director, Bulk Mail Processing Department (formerly Director of Non Letter Mail Programs, Research and Engineering Department), who was responsible for recommending the procurement from Speaker and for the engineering evaluation of Speaker's proposal, had been associated with Speaker as a management consultant during the period April to August 1969. He informed us that his services to Speaker had consisted of advising on production practices, cost accounting, product pricing, and recordkeeping.

CHAPTER 7

SCOPE OF REVIEW

Our review was made at the Postal Service headquarters, Washington, D.C.; the Postal Service regional offices in New York, N.Y., and Philadelphia, Pennsylvania; and the Corps of Engineers headquarters in Washington, D.C., and its New York District Office.

Our review included field trips to the New York City-New Jersey area, during which we interviewed regional Postal Service and Corps of Engineers officials, visited the three sites given primary consideration by the Postal Service as possible locations for the project, examined regional files pertaining to the project, and interviewed the owners of the two sites not selected and the real estate consultant hired by the Post Office Department to assist it in locating and acquiring the site for the facility.

We made trips also to the offices and plant of the firm that manufactured the parcel- and sack-sorting equipment for the facility and interviewed its top management officials. We also interviewed officials of the firm responsible for the soil testing of the Penn Central property.

We reviewed appropriation hearings for fiscal years 1968 through 1971 pertaining to the construction of postal facilities. We also examined contract records, correspondence, and other data in the files in Washington, New York, and Newark.

APPENDIXES

H. R. GROSS
30 DIST., IOWA

HOME ADDRESS:
WATERLOO, IOWA

HOUSE OFFICE BUILDING

COMMITTEES:
FOREIGN AFFAIRS
POST OFFICE AND CIVIL SERVICE

Congress of the United States
House of Representatives
Washington, D.C. 20515

COUNTIES:
BLACK HAWK HAMILTON
BREMER HARCOCK
BUTLER HOWARD
CERRO GORDO HOWARD
CHICKASAW MITCHELL
FLOYD WINNEBAGO
FRANKLIN WORTH
BRUNDY WRIGHT

December 17, 1970.

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office Building
Washington, D. C.

Dear Mr. Staats:

I am enclosing a copy of a memorandum which makes a number of allegations concerning the construction of a building in Jersey City, New Jersey for the handling of bulk and foreign mail.

As you will note, several of the allegations involve Assistant Postmasters General Henry Lehne and Harold F. Faught.

The memorandum asks a number of seemingly valid questions which I would like to have answered. Of particular interest are the statements that the projected cost of this project is more than 100 percent in excess of the figure presented to the Congress, and that the Penn Central owned this property plus sites now being considered in Ohio and near Washington, D.C. for postal buildings.

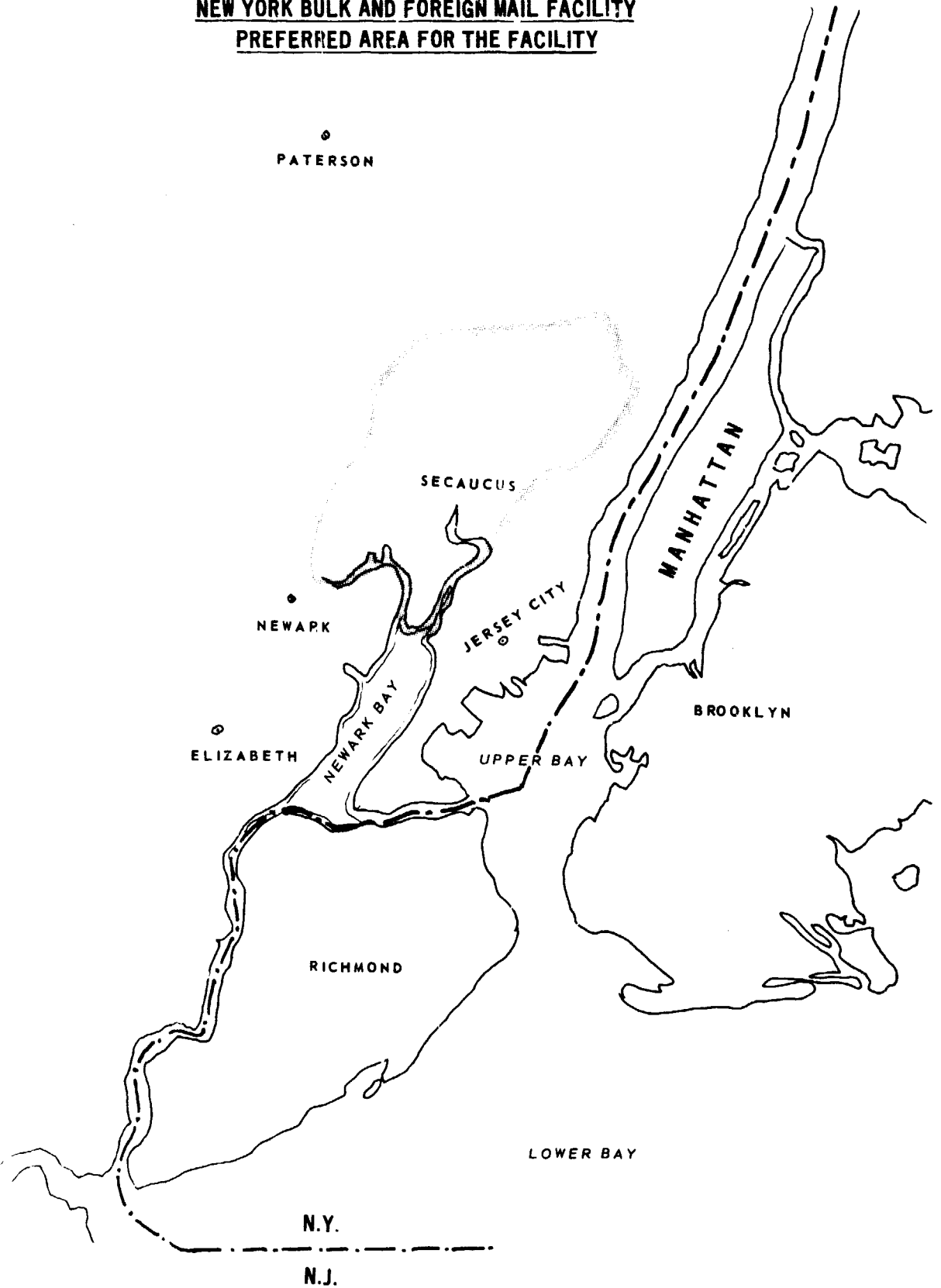
Since the allegation that the projected cost of the New Jersey project has already more than doubled would be of particular interest to the Congress, I would appreciate it if you would ascertain whether or not this is true as quickly as possible and report this information to me prior to the issuance of your normal report.

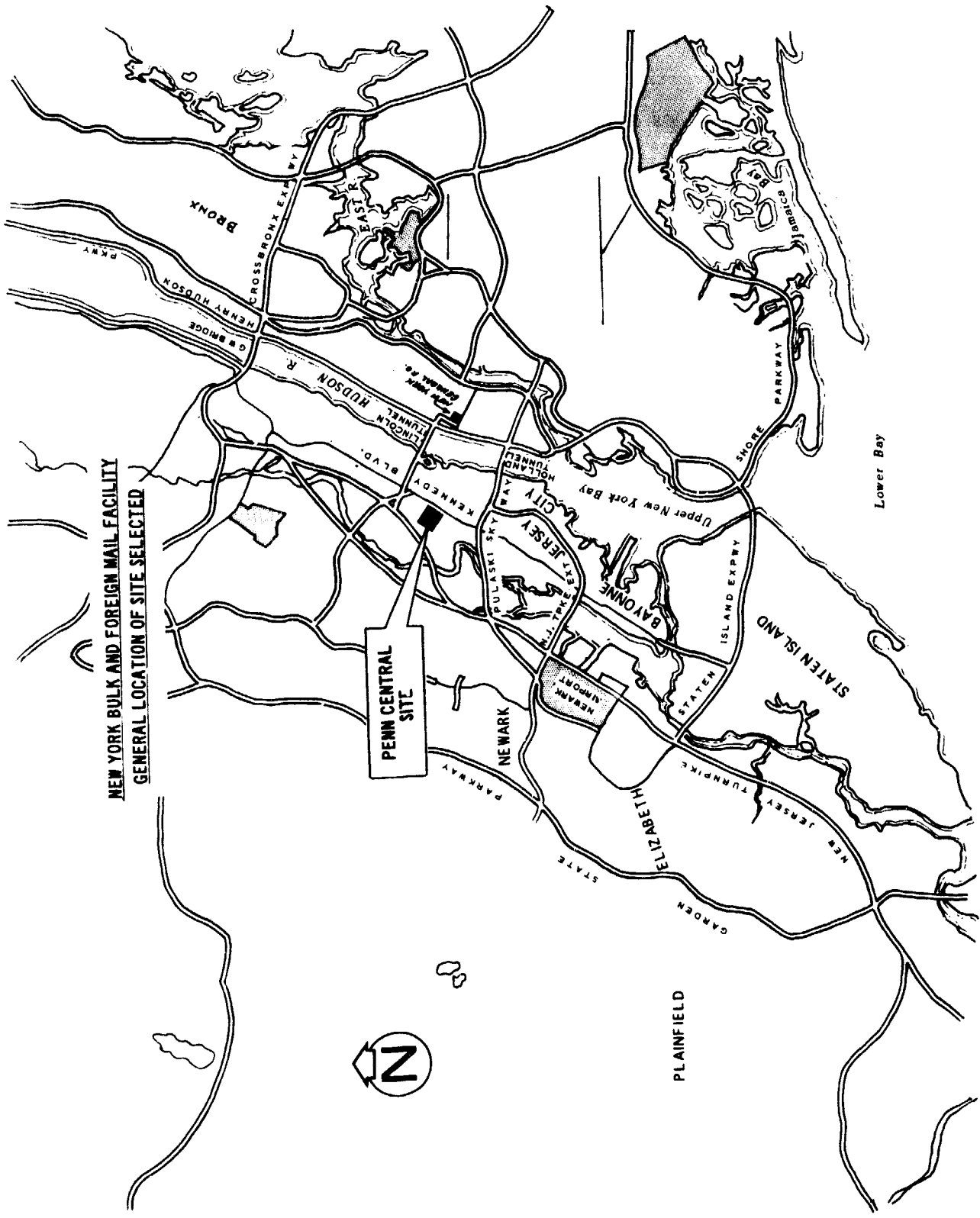
Thank you for your attention to this request.

Sincerely,

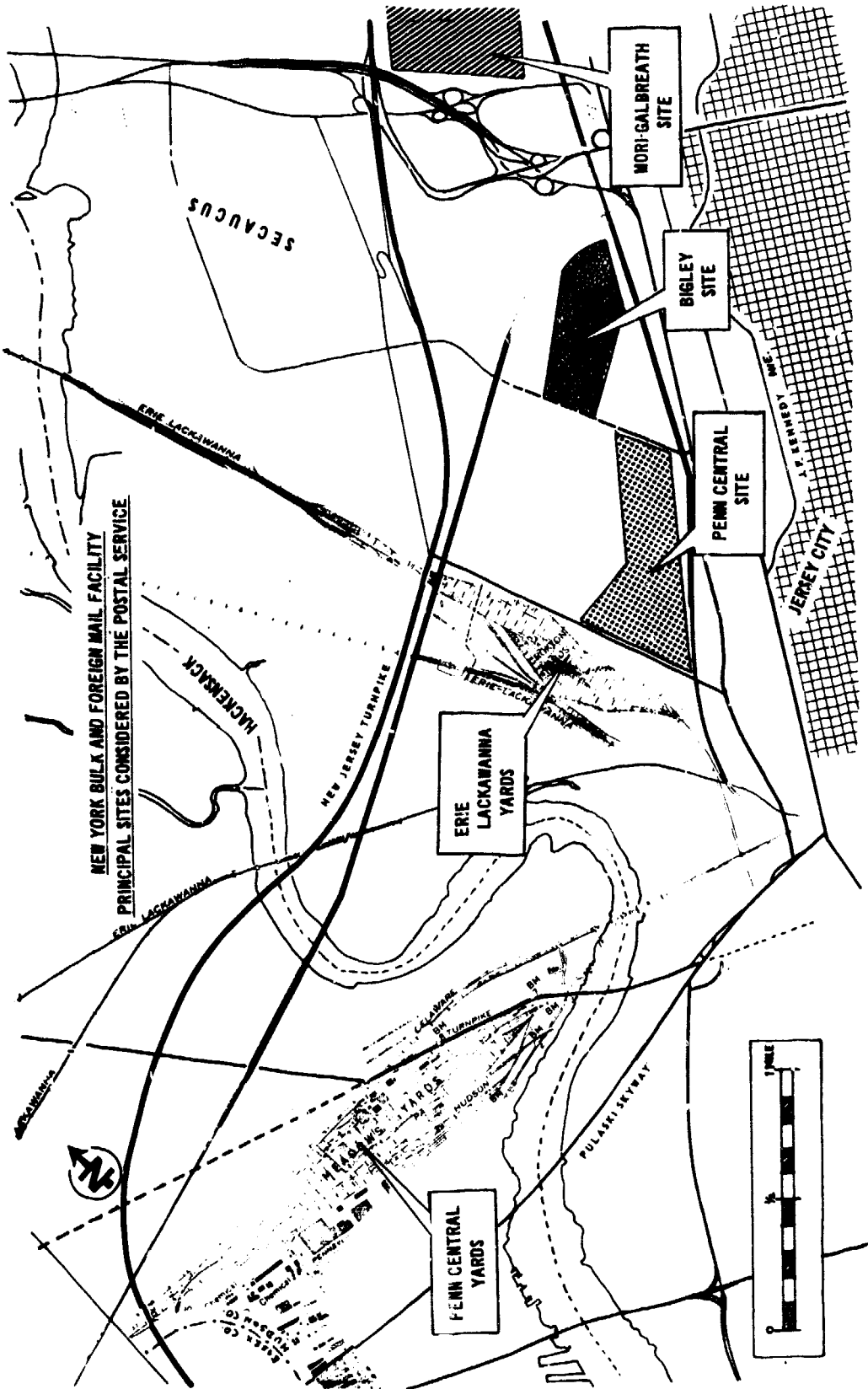

H. R. Gross

NEW YORK BULK AND FOREIGN MAIL FACILITY
PREFERRED AREA FOR THE FACILITY





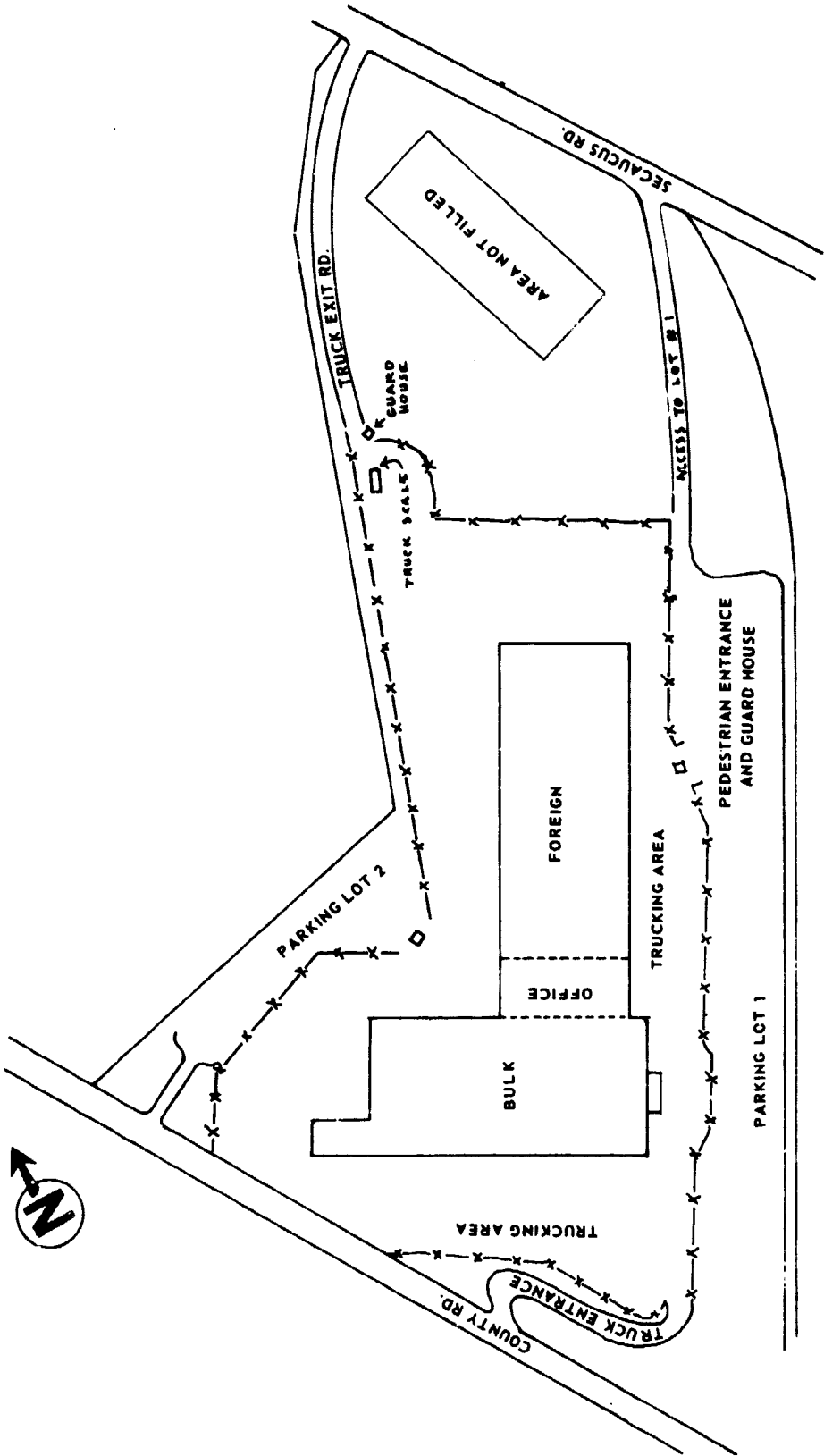
**NEW YORK BULK AND FOREIGN MAIL FACILITY
GENERAL LOCATION OF SITE SELECTED**



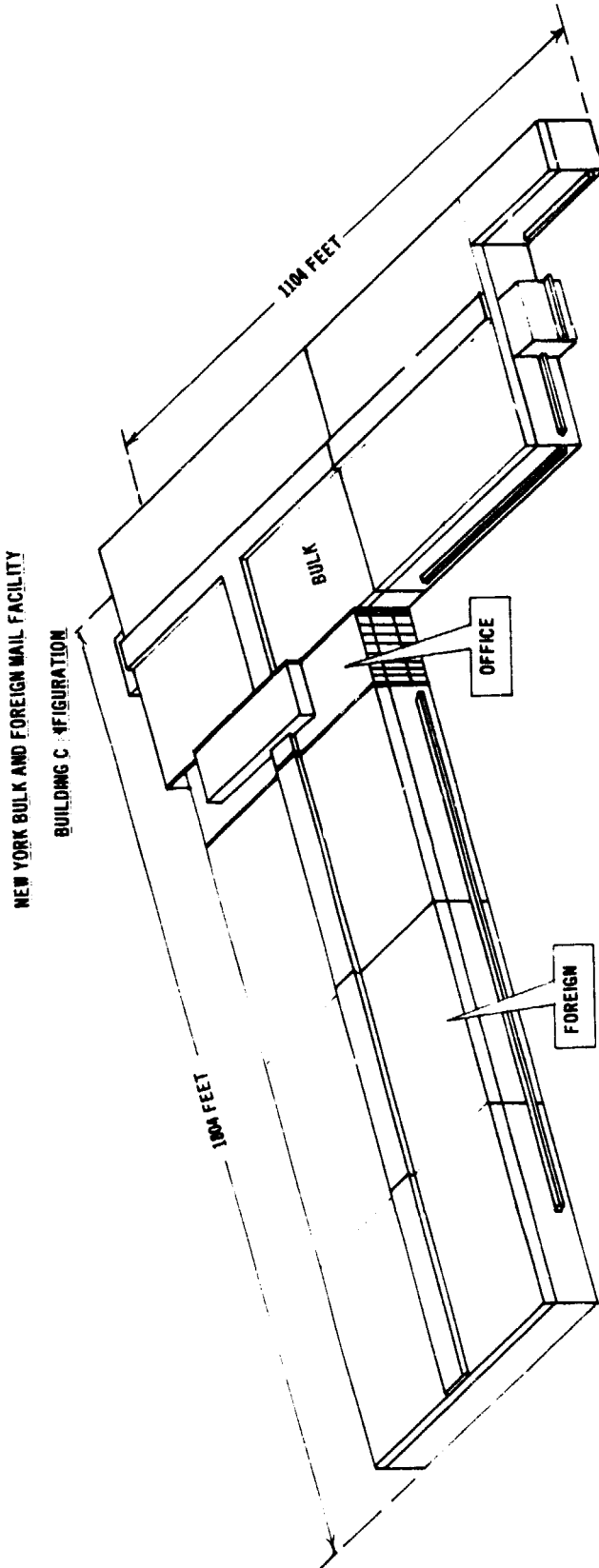
SCHEDULE OF ESTIMATED TOTAL COST BY
CONTRACT AND TYPE OF WORK FOR THE
NEW YORK BULK AND FOREIGN MAIL FACILITY PROJECT
AS OF SEPTEMBER 30, 1971

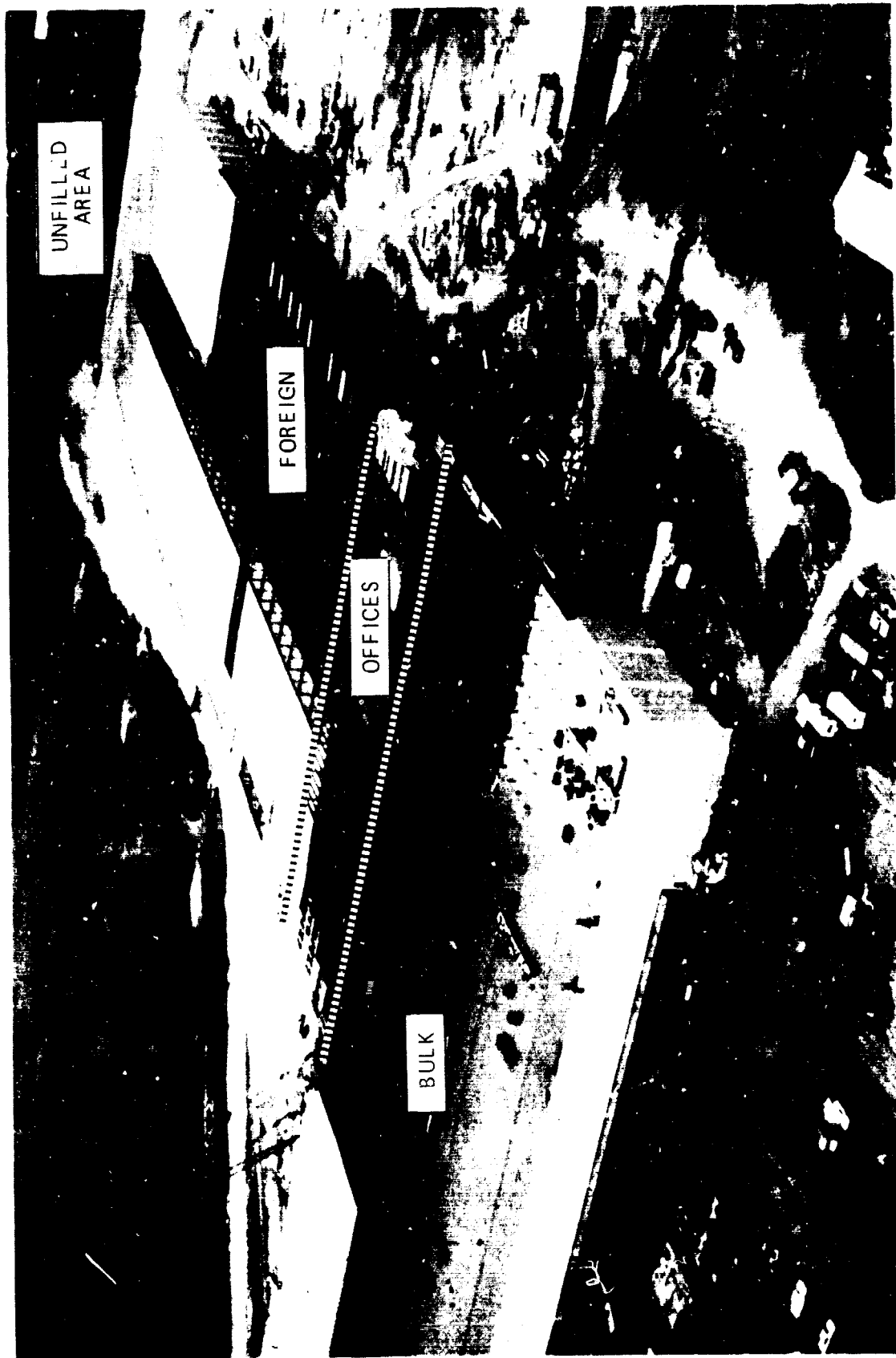
<u>Date of contract award</u>	<u>Contractors and description</u>	<u>Estimated total cost as of Sept. 30, 1971</u>
<u>Design</u>		
9-17-69	A. T. Kearney & Company, Inc.--preliminary design	\$ 640,767
9-17-69	Lester B. Knight & Associates, Inc.--design	4,172,563
11- 3-70	McKee-Berger-Mansueto, Inc.--bid evaluation	<u>30,000</u>
	Total estimated design cost as of September 30, 1971	<u>4,843,330</u>
<u>Site</u>		
-	Total estimated compensation to owners of land	2,167,500
10-17-69	Woodward-Clyde & Associates--preliminary soil test	738
10-20-69	Charles F. Evans & Associates--preliminary letters of appraisal	1,500
11-19-69	Woodward-Clyde & Associates--soil tests	43,000
12- 1-69	Manalio & Manalio--land survey	16,900
1 -19-70	Blau-Lasser Appraisal Co.--formal appraisal	2,500
1 -26-70	Charles F. Evans & Associates--formal appraisal	2,500
4- 6-70	Buckley & Company, Inc.--site preparation	<u>3,122,212</u>
	Total estimated site cost as of September 30, 1971	<u>5,357,650</u>
<u>Building construction</u>		
6-24-70	Raymond Concrete Pile Division, Raymond International, Inc.--piling	6,174,615
6-30-70	Grand Iron Works, Inc.--structural steel, pile caps, and grade beams	6,134,408
7-24-70	Federal Pacific Electric Co.--electrical equipment	552,926
9-18-70	H. H. Robertson Company--roofing and siding	1,303,037
3-29-71	Walter Kidde Construction Co. & Frank Briscoe--miscellaneous concrete foundation	630,600
4-22-71	R. H. Pines Corporation--reinforcing steel	787,600
5- 7-71	Tendun Constructors--general construction and building	39,858,564
-	Contingency reserve	3,160,326
-	Corps of Engineers--supervision, inspection, and overhead costs	<u>2,500,000</u>
	Total estimated building construction cost as of September 30, 1971	<u>61,102,076</u>
<u>Equipment</u>		
9- 2-70	Speaker Sortation Systems--sack-sorting machines	1,866,682
11-20-70	Speaker Sortation Systems--parcel-sorting machines	7,341,221
5- 7-71	Mechanical Handling System, Division of American Chain & Cable--tow conveyor system	597,775
5- 7-71	Tendun Constructors--general construction and mechanization	44,685,436
-	Contingency reserve	1,934,599
-	Corps of Engineers--supervision, inspection, and overhead costs	<u>2,000,000</u>
	Total estimated equipment cost as of September 30, 1971	<u>58,845,713</u>
	Total cost of design, site, building construction, and equipment for New York Bulk and Foreign Mail Facility as of September 30, 1971	<u>\$130,148,769</u>

**NEW YORK BULK AND FOREIGN MAIL FACILITY
CURRENT SITE PLAN**



X--X FENCE





SEPT - 1971

NEW YORK BULK & FOREIGN MAIL FACILITY

AERIAL VIEW